

RUSSELLVILLE INDEPENDENT
SCHOOL DISTRICT

FINANCIAL STATEMENTS

June 30, 2004

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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Russellville Independent School District
Russellville, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the ***Russellville Independent School District*** (the "District") as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, and Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 2 of the basic financial statements, the District has implemented a new financial reporting model, as required by the provisions of Governmental

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Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments*, Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures* and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* as of July 1, 2003. This results in a change in the format and content of the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2004 on our consideration of ***Russellville Independent School District's*** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 16 and 59 through 62 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ***Russellville Independent School District's*** basic financial statements. The combining and individual nonmajor fund financial statements and additional information are presented for purposes of additional analysis and are not

Kentucky State Committee for School District Audits
Members of the Board of Education
Russellville Independent School District

a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements of the **Russellville Independent School District**. The combining and individual nonmajor fund financial statements, other additional information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Holland CPAs, PSC

Russellville, Kentucky
September 3, 2004

Required Supplemental Information

Management's Discussion and Analysis



**RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
RUSSELLVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(MD&A)
YEAR ENDED JUNE 30, 2004**

As management of the Russellville Independent School District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

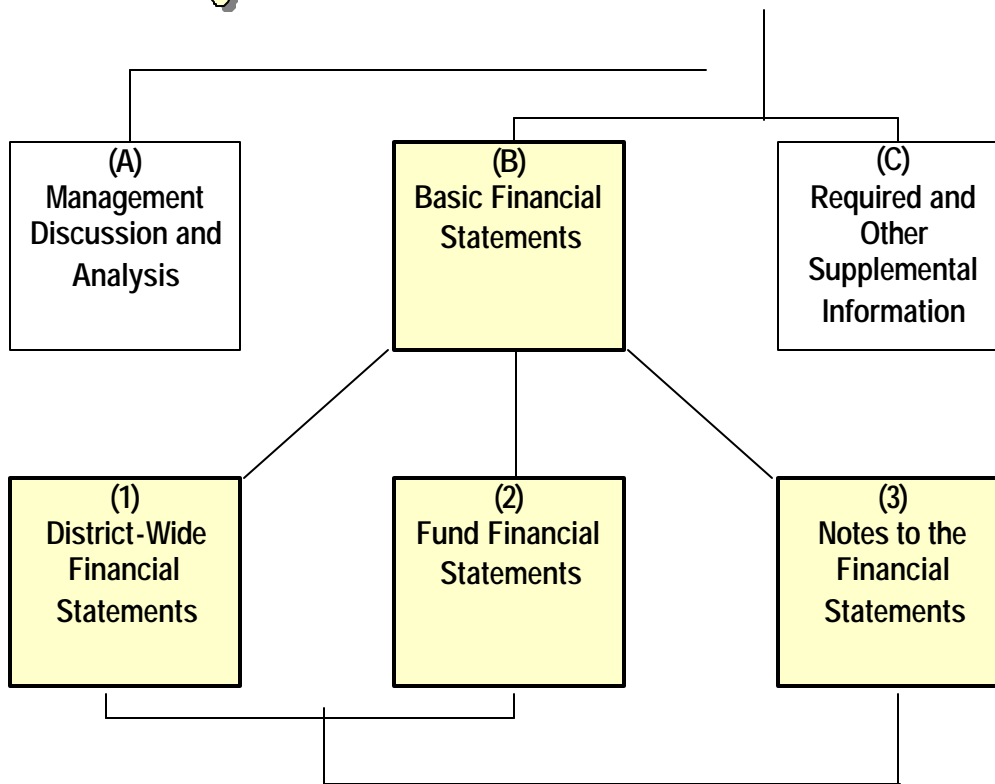
FINANCIAL HIGHLIGHTS

- Based on the GASB 34 model of measuring net assets, the total net assets from Governmental activities increased 15.2% and the total net assets from Business type activities increased 24.1% for the fiscal year ended June 30, 2004. The result was an increase in the total net assets of Governmental and Business type activities of 15.5%.
- Total expenses related to governmental activities were \$8,681,295, of which \$1,828,623 was offset by operating and capital grants and contributions. General revenues, including property taxes, utility taxes and state funding, provide the balance of the expenditures.
- Since KERA reform in the early 1990's, the funding for computers and their replacement has steadily decreased. Over the past year, the District has evaluated the use of state and local technology funds. We have made a conscious decision to divert spending on technology-related service contracts to spending on new computers and computer-related systems. In 2004, the District replaced and/or added approximately 16% of the computers in the District. We are currently investigating ways to better use technology in the classroom.
- The District's investment earnings have decreased 37% due to a decline in interest rates. In previous years, the District had investments in government backed securities. Due to the significant interest rate risks of securities and current market interest conditions, we are currently moving all investments into a liquid cash position.
- The financial statements reflect a total of \$990,491 of revenues and aid from the state for payments made by the state on-behalf of District employees for retirement contributions and health insurance.
- While the revenue of the District as a whole has declined \$129,305 (excluding on-behalf payments), the general fund revenue has declined \$156,550 (excluding on-behalf payments). The decline is attributable to a decline in student enrollment. District management is aggressively taking steps to become more efficient in its operations. School management is aggressively taking steps to change school atmosphere.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT (AFR)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Russellville Independent School District as a financial whole or, in other words, an entire operating entity, in a manner similar to a private-sector business. The annual report consists of three parts: (A) management's discussion and analysis (this section) [pages 5-16], (B) the basic financial statements [pages 18-33], and (C) required and other supplemental information [pages 59-62]. The statements provide an increasingly detailed look at specific financial activities. The District's basic financial statements comprise three components: 1) government-wide financial statements [pages 18-21], 2) fund financial statements [pages 22-33], and 3) notes to the financial statements [pages 34-57]. This report also contains other supplementary information in addition to the basic financial statements themselves.

Organization of the Annual Financial Report



The Government-Wide Financial Statements have two sections (1) the *Statement of Net Assets* and (2) the *Statement of Activities*. The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's major funds with all other non-major funds presented in total in one column. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

REPORTING THE SCHOOL DISTRICT AS A WHOLE

One of the most important questions asked about the District is “How did we do financially during 2004?” The *Statement of Net Assets* and the *Statements of Activities*, which appear first in the District’s financial statements, report information on the District as a whole and its activities in a way that helps answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the District’s net assets and changes in those assets. This change in net assets is important because it tells the reader that for the District as a whole, the financial position of the District has improved or diminished. However, the District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as Kentucky’s SEEK funding formula and its adjustments, the District’s property tax base, required educational programs and other factors.

In the Statement of Net Assets and the Statements of Activities, the District is divided into two distinct kinds of activities:

- Government Activities – Most of the District’s programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extra-curricular activities. The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). Fixed assets and related debt is also supported by taxes and intergovernmental revenues.
- Business-Type Activities – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District’s food service is reported as business activities. These activities are funded through fees, federal grants, and federal commodities.

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$4,544,067 as of June 30, 2004.

The largest portion of the District’s net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment), less any outstanding related debt (\$3,260,000) used to acquire those assets. The District uses these capital assets to provide services to its students; so consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District’s financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

After looking at the District as a whole, an analysis of the major funds follows. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are assets that belong to others. The school's activity funds and scholarship trust account are reported as fiduciary funds. The school food service and community education funds are reported as proprietary funds. A proprietary fund is sometimes referred to as an enterprise fund. It is a fund that operates like a business with sales of goods and services. All other activities of the District are included in the governmental funds. The major governmental funds for the Russellville Independent School District are the general fund, special revenue (grants), Capital Outlay (SEEK).

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Assets and the Statements of Activities) and governmental *funds* is reconciled in the financial statements.

Proprietary Funds - Proprietary funds use the same basis of accounting as business-type activities; therefore, the statements for the proprietary fund will essentially match. The proprietary funds are our food service operations and community education.

Fiduciary Funds – The schools' activity funds (or agency funds) and the scholarship trust account are the District's only fiduciary funds. At June 30, 2004 the balances of the schools' activity account and the scholarship trust account are \$124,303 and \$24,792 respectively.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets for the period ending June 30, 2004 *

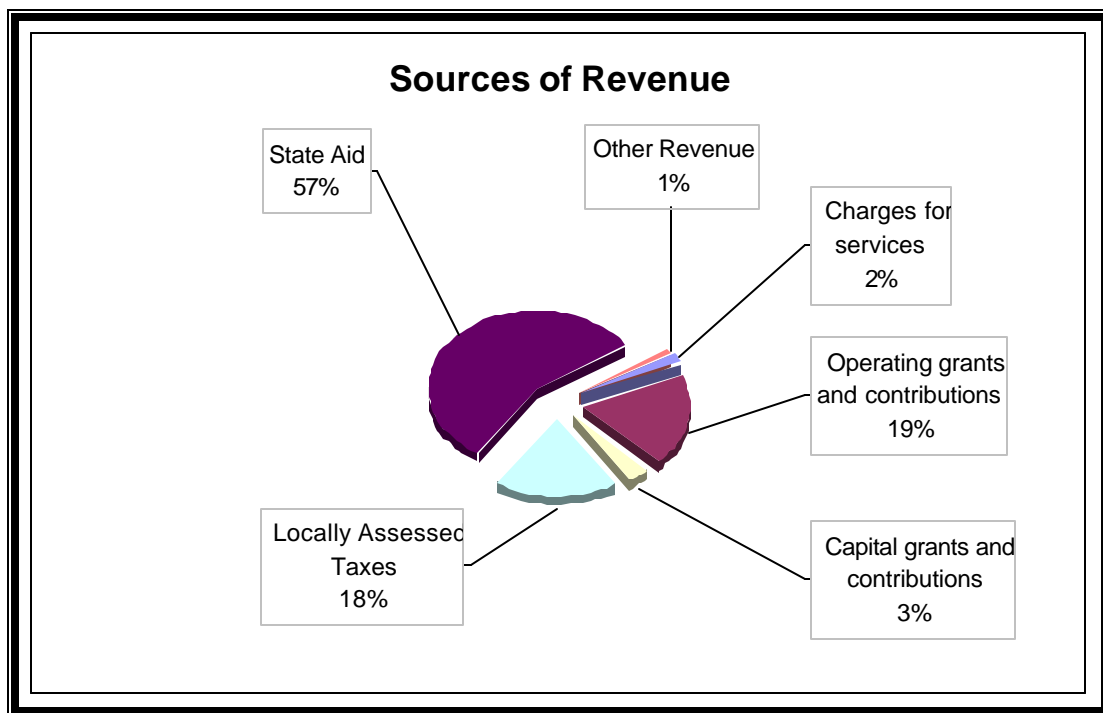
	Governmental Activities	Proprietary Business-Type Activities	Total
Current and other assets	2,391,740	123,605	2,515,345
Capital assets	6,059,668	45,788	6,105,456
Total assets	<u>\$ 8,451,408</u>	<u>\$ 169,393</u>	<u>\$ 8,620,801</u>
Long-term obligations	3,420,975		3,420,975
Other liabilities	655,688	71	655,759
Total liabilities	<u>\$ 4,076,663</u>	<u>\$ 71</u>	<u>\$ 4,076,734</u>
Net assets			
Investment in capital assets, net of related debt	2,614,534	45,788	2,660,322
Restricted	279,196		279,196
Unrestricted	1,481,015	123,534	1,604,549
	<u>\$ 4,374,745</u>	<u>\$ 169,322</u>	<u>\$ 4,544,067</u>

* Note: In subsequent years, this chart will compare last year's Net Assets to the current years. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.

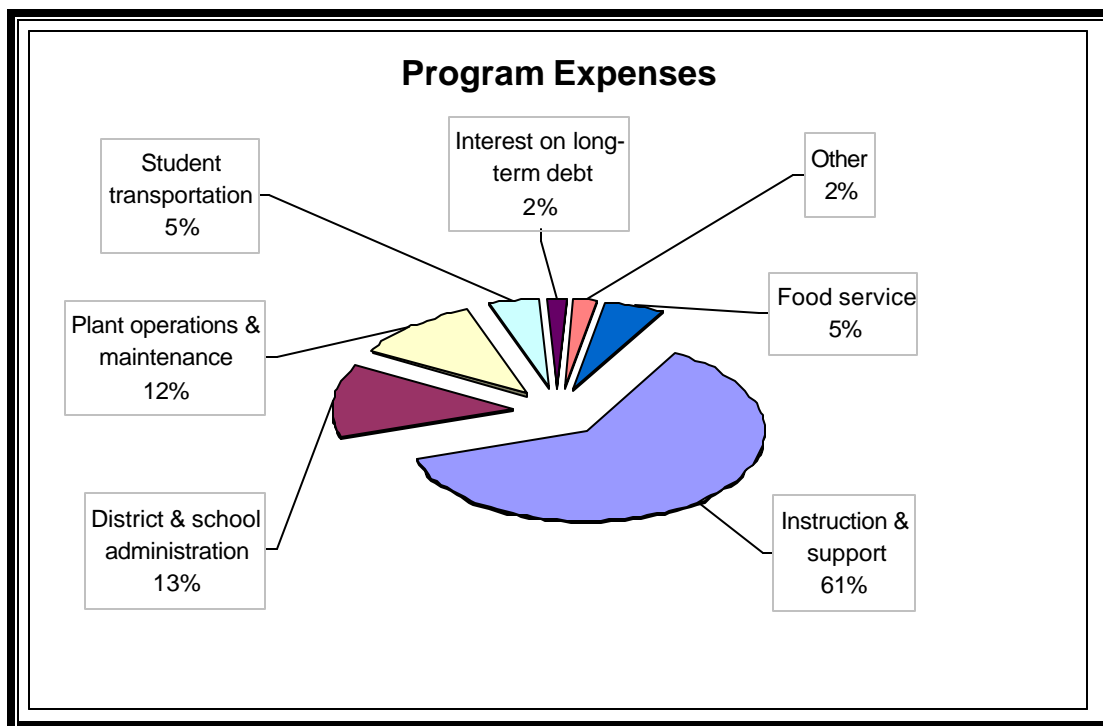
Changes in Net Assets for the period ending June 30, 2004*

	Government Activities	Proprietary Business-Type Activities	Total
Revenues			
Program Revenues			
Charges for services	\$ 30,283	\$ 170,628	\$ 200,911
Operating grants and contributions	1,528,533	347,502	1,876,035
Capital grants and contributions	300,090		300,090
General Revenue			
Taxes			
Locally Assessed Taxes	1,768,577		1,768,577
State Aid	5,532,043		5,532,043
Other Revenue	98,375	2,089	100,464
Total revenues	\$ 9,257,901	\$ 520,219	\$ 9,778,120
Expenses			
Instruction & support	5,649,046		5,649,046
District & school administration	1,190,397		1,190,397
Plant operations & maintenance	1,060,327		1,060,327
Student transportation	419,978		419,978
Interest on long-term debt	167,330		167,330
Other	194,217	5,688	199,905
Food service		481,694	481,694
Total expenses	8,681,295	487,382	9,168,677
Increase in net assets	\$ 576,606	\$ 32,837	\$ 609,443

* Note: In subsequent years, this chart will compare last year's Net Assets to the current years. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.



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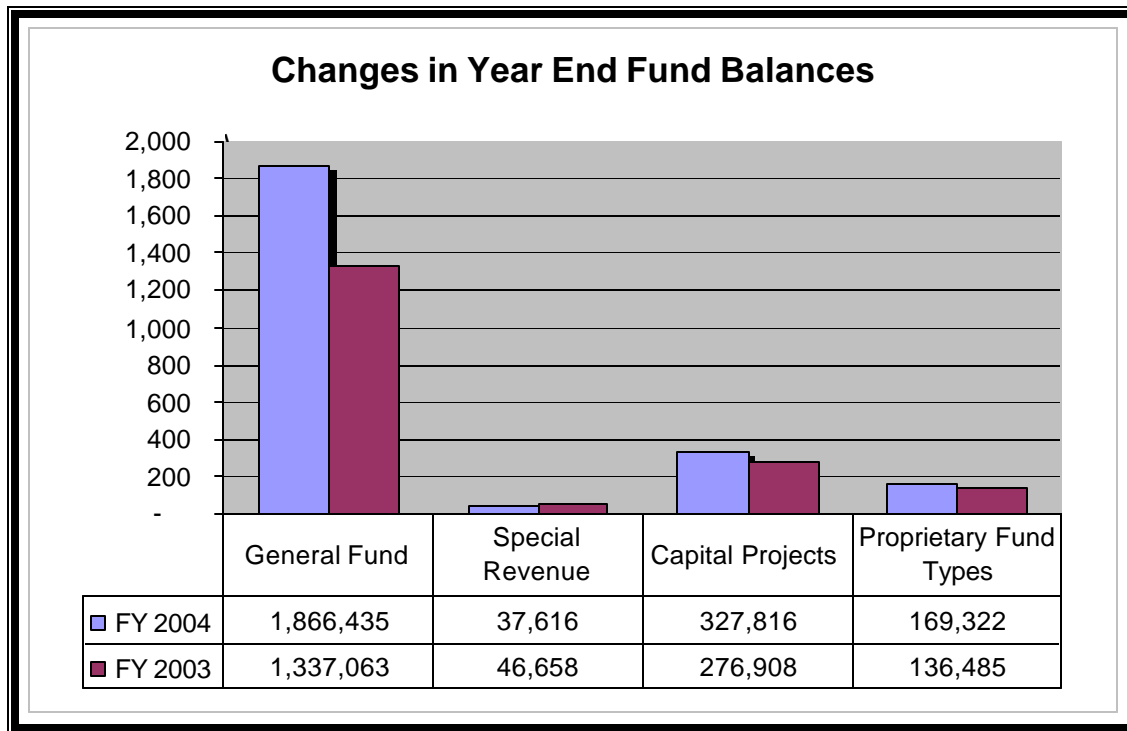
Using the GASB 34 model of measuring revenue and expenses, the District's total revenues were \$9,778,120 and the total expenses were \$9,168,677. The revenues exceeded expenses by \$609,443. Locally generated revenues remained approximately the same with a slight increase. The 4% increase in property tax revenue approved by the board was offset by a significant decrease in investment earnings due to the decrease in

interest rates. The basis of the Kentucky Education Reform Act (KERA) was to fund school systems based on an average student attendance. State aid decreased due to a decrease in average student attendance. In smaller Districts where the local property tax base is less, the state equalizes the revenues by increasing the state's portion of the District's funding. The District's state aid includes a rental paid by the state for the use of the District's Vocational School Building.

Although comparative numbers are not available, the District was able to significantly save on non-payroll cost in the areas of maintenance and operations. Because of the strong leadership in the schools and improved work atmosphere, District and school administrative personnel conserved spending on utilities (i.e. electric, water and phone). Savings was also realized from fewer teacher absences, which resulted in less cost for substitute teachers and more teaching time spent with students. All school principals and staff were given budgets and freedom to work within those budgets. Using the MUNIS accounting system, the District's administration monitored and approved the procurement of all purchases prior to the ordering. The close monitoring of all cost and vendors resulted in significant savings to the District.

The financial position of the school food service was significantly improved during the school year. The food service director, with the cooperation of the food service staff and school principals, was given the responsibility of operating a self-sustaining food service program. The increase in profitability was, in part, due to an approximate 12% increase in breakfast participation, and was also due to implementing new cost control measures. The primary new cost control measure implemented was the centralization of food ordering for the District. With this increase in profitability, the food service program paid for the director's salary and was not supplemented by the General Fund, with the exception of small maintenance items. Based on available documentation, this was the initial year the school nutrition program was self-sustaining and operated with a profit without being supplemented by the General Fund.

Comparative Financial Analysis of the District's Fund Balances



The General Fund increase of \$529,372 in fund balance was due to several reasons. Among the reasons are a better use of federal and state funds, the adherence to a new and better procurement policy and conservative spending. The Special Revenue Fund decrease of \$9,042 was due to normal changes in the local grants and the KETS grant. A combination of the Capital Project Funds (i.e. Capital Outlay, Building Fund and Construction Fund) changed \$50,908 due to the excess funding available from the state SEEK formula for building construction, renovation and bond payments. In January 2004, for the first time in the history of the District, the District accepted an offer from the School Facilities Construction Commission (SFCC). By accepting the offer, the commission has agreed to assist the District with \$66,408 of annual debt service over 20 years. In return, the District set aside in total \$236,901 from the Capital Outlay and Building Funds. The District may use the bonding power of these funds to fund the construction of a priority one project(s) on the District's facilities plan.

General Fund Budgetary Highlights

In accordance with directive from the Kentucky Department of Education (DOE) and Kentucky statutes, the District's funds budgets are prepared to account for most transactions on a cash receipt / cash disbursement / encumbrance basis. The DOE requires a budget in which any budgeted remaining fund balance is shown as a contingency expense and any amounts being accumulated for other purposes ultimately is shown as unspent or over-budgeted expenditures. Over the course of the year, the District revises the annual operating budget as circumstances dictate or as required by the DOE. The major difference in the original General fund budget to the final budget was an increase in the final budget for facilities construction. The original budget estimates were conservatively prepared. The District's financial position was stronger at the time of preparation of the final budget. With the aging buildings of the District, the budget was increased to allow for a possible project.

In the *Budgetary Comparison Schedule for the General Fund* contained in the *Required Supplemental Information*, the budget did not include \$990,491 of state payment on-behalf of District employees for retirement and health benefits. These payments are reflected in the actual (GAAP basis) amounts as state program revenues. An equal expenditure was apportioned in relation to wages paid, with the major portion contained in instructional expenditures. Additionally, local revenues were conservatively budgeted for a favorable variance.

District administration expenses show a large surplus of budget above actual expenditures. The budgeted contingency, as described above, constitutes the largest amount of the variance. Facilities acquisition and construction shows a surplus because funds being accumulated for future construction projects have not yet been expended. Plant operations and maintenance shows a surplus because of conservative spending habits. Student transportation shows a favorable variance because the KERA Preschool Grant reimbursed the General Fund for transportation costs.

Capital Asset and Debt Administration

Capital Assets

By June 30, 2004, the District had invested \$6,105,456, net of depreciation, in capital assets. This includes land, school buildings, athletic facilities, computer equipment, equipment, vehicles and administrative offices. The cumulative total of assets was \$12,210,795 with accumulated depreciation of \$6,105,339. The current year activity resulted in no individually significant asset purchase or disposal. The following table summarizes the original cost of the capital assets, asset additions and asset disposals.

SUMMARY OF CAPITAL ASSETS *

	2003	Additions	Disposals	2004
Land and improvements	1,058,033			1,058,033
Buildings and improvements	8,710,165	25,015		8,735,180
Equipment and vehicles	2,376,564	90,463	49,445	2,417,582
	<u>12,144,762</u>	<u>115,478</u>	<u>49,445</u>	<u>12,210,795</u>

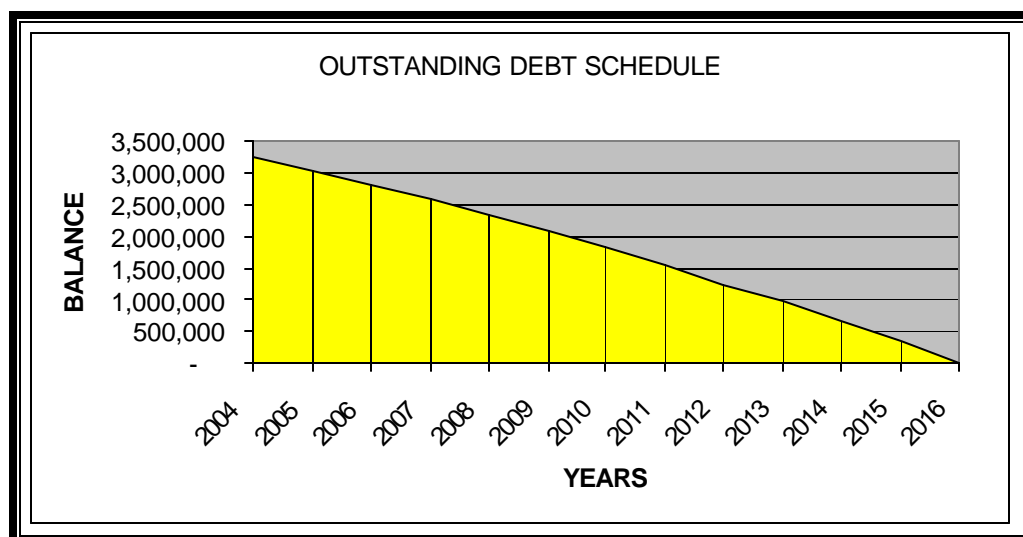
* Note: In subsequent years, this chart will compare last year's Capital Assets additions and disposals to the current years. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.

Long-Term Debt

At year-end the District had \$3,260,000 in general obligation bonds outstanding. The long-term debt was decreased \$205,000 or 5.9% over last year. The following table represents the current debt schedule of the District.

Long-Term debt activity				
Series	Purpose	Governmental Activities 2004	Governmental Activities 2003	Decrease
Series 1991	Preschool and gym construction at elementary school.	\$ -	\$ 70,000	\$ 70,000
Series 1996	Construction of media centers at each school.	1,590,000	1,635,000	45,000
Series 1998	Partial refunding of Series 1991.			
	Preschool and gym construction at elementary school.	680,000	690,000	10,000
Series 2001 KISTA	HVAC and paving improvements at high school. Roof and paving improvement at elementary school.	630,000	670,000	40,000
Series 2001R KISTA	Accessibility improvements and roofing at middle school.	255,000	285,000	30,000
Series 2002 KISTA	Flooring at middle school.	105,000	115,000	10,000
		<u>\$ 3,260,000</u>	<u>\$ 3,465,000</u>	<u>\$ 205,000</u>

The following table represents the current debt balances and maturities of the District.



DISTRICT CHALLENGES FOR THE FUTURE

It is extremely important that the District continue to budget very conservatively. The District receives approximate 71% of its general fund revenue each year through the state funding formula (SEEK). The SEEK forecasts from the state should be considered only an estimate of state revenue. If the state does not receive the revenue from taxing sources, an adjustment will be made to the funding formula. The District should always be prepared for such reductions in funding.

Approximately 26% of the general fund revenue is from local property tax. The major portion of the tax revenue does not come to the District until the fifth to seventh month of the fiscal year. This means the general fund's beginning fund balance must be used to absorb much of the first four months of expenditures. Provisions must always be made to have a significant fund beginning balance to start each year. The District has an ending General Fund balance of \$1,866,435 or 20% of the total governmental funds actual expenditures as a beginning balance for next year.

The District's tax base is not growing and the District has maximized the tax rate. As discussed earlier, the District's administration is taking an active role in conserving its resources. The school's administration, as well as school staff, is working to improve school attendance. The schools are working in concert to improve student achievement and test scores. The District receives funding through the SEEK formula based on the attendance count. There are a very limited number of new homes constructed within the boundaries of the District. Therefore, growth within the District is limited. It is vital that our schools have high attendance percentages and that parents and students continue to choose Russellville Independent Schools when they could be attending elsewhere. Maintaining excellence and emphasizing serving the public are the main factors influencing this District challenge.

Other challenges for Russellville Independent Schools are to continue to improve and modernize the facilities. In the coming weeks, the District will reconvene the School Facilities Local Planning Committee (LPC). The commission of the LPC will be to reevaluate and improve on the previous plan, given the acceptance of the offer of assistance. The LPC will be charged to plan for the future as it relates to the modernization of our facilities.

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, please contact Dr. Kenneth Stephens, Superintendent or Mark Coursey, Director of Finance (270)726-8405, 355 South Summer Street, Russellville, Kentucky 42276. Their e-mail addresses are kstephens@rville.k12.ky.us or mcoursey@rville.k12.ky.us.

Basic Financial Statements

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2004

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
ASSETS			
Cash.....	\$ 2,141,930	\$ 119,316	\$ 2,261,246
Investments	117,011	0	117,011
Accounts receivable:			
Taxes	71,210	0	71,210
Accounts.....	26,521	0	26,521
Intergovernmental – federal.....	17,287	0	17,287
Prepays	17,781	0	17,781
Inventory.....	0	4,289	4,289
Non-depreciated capital assets	209,570	0	209,570
Depreciable capital assets	11,777,948	223,277	12,001,225
Less: accumulated depreciation.....	(5,927,850)	(177,489)	(6,105,339)
TOTAL ASSETS	<u>8,451,408</u>	<u>169,393</u>	<u>8,620,801</u>
LIABILITIES			
Accounts payable.....	90,210	71	90,281
Accrued liabilities	79	0	79
Deferred revenue.....	69,584	0	69,584
Long-term obligations:			
Due within one year:			
Outstanding bonds	215,000	0	215,000
Other	33,921	0	33,921
Accrued interest.....	46,994	0	46,994
Compensated absences	199,900	0	199,900
Due beyond one year:			
Outstanding bonds	3,045,000	0	3,045,000
Other	151,213	0	151,213
Compensated absences	224,762	0	224,762
TOTAL LIABILITIES	<u>4,076,663</u>	<u>71</u>	<u>4,076,734</u>

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
NET ASSETS			
Invested in capital assets, net of related debt.....	\$ 2,614,534	\$ 45,788	\$ 2,660,322
Restricted for:			
SFCC	236,901	0	236,901
Capital projects	42,295	0	42,295
Unrestricted	1,481,015	123,534	1,604,549
TOTAL NET ASSETS	\$ 4,374,745	\$ 169,322	\$ 4,544,067

See accompanying notes to the financial statements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

		PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
EXPENSES								
GOVERNMENTAL ACTIVITIES								
Instruction	\$ 4,827,046	\$ 7,258	\$ 1,073,664	\$ 10,964	\$ (3,735,160)	\$ 0	\$ (3,735,160)	
Support Services:								
Student.....	430,639	0	69,687	0	(360,952)	0	(360,952)	
Instructional staff	391,361	0	129,392	0	(261,969)	0	(261,969)	
District administration	407,905	0	21,333	0	(386,572)	0	(386,572)	
School administration	556,573	0	776	0	(555,797)	0	(555,797)	
Business	225,919	0	0	0	(225,919)	0	(225,919)	
Plant operations and maintenance.....	1,060,327	23,025	7,734	0	(1,029,568)	0	(1,029,568)	
Student transportation	419,978	0	59,182	0	(360,796)	0	(360,796)	
Other.....	194,217	0	166,765	0	(27,452)	0	(27,452)	
Interest on long-term debt.....	167,330	0	0	289,126	121,796	0	121,796	
TOTAL GOVERNMENTAL ACTIVITIES	8,681,295	30,283	1,528,533	300,090	(6,822,389)	0	(6,822,389)	

BUSINESS-TYPE ACTIVITIES

Food services.....	481,694	164,228	347,502	0	0	30,036	30,036
Community education.....	5,688	6,400	0	0	0	712	712
TOTAL BUSINESS-TYPE ACTIVITIES	487,382	170,628	347,502	0	0	30,748	30,748
TOTAL SCHOOL DISTRICT	\$ 9,168,677	\$ 200,911	\$ 1,876,035	\$ 300,090	(6,822,389)	30,748	(6,791,641)

GENERAL REVENUES

Taxes:

Property.....	1,164,009	0	1,164,009
Motor vehicle.....	124,000	0	124,000
Utilities.....	411,397	0	411,397
Other.....	69,171	0	69,171
State aid	5,532,043	0	5,532,043
Investment earnings.....	58,261	2,089	60,350
Other.....	40,114	0	40,114
	7,398,995	2,089	7,401,084

CHANGE IN NET ASSETS 576,606 32,837 609,443

NET ASSETS ³/₄ BEGINNING OF YEAR..... 3,798,139 136,485 3,934,624

NET ASSETS ³/₄ END OF YEAR **\$ 4,374,745 \$ 169,322 \$ 4,544,067**

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	GENERAL FUND	SPECIAL REVENUE FUND	SEEK FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash.....	\$ 1,701,703	\$ 112,411	\$ 240,254	\$ 87,562	\$ 2,141,930
Investments	117,011	0	0	0	117,011
Accounts receivable:					
Taxes	71,210	0	0	0	71,210
Accounts.....	26,521	0	0	0	26,521
Intergovernmental – federal.....	0	17,287	0	0	17,287
Prepays	17,781	0	0	0	17,781
TOTAL ASSETS	\$ 1,934,226	\$ 129,698	\$ 240,254	\$ 87,562	\$ 2,391,740

**LIABILITIES
AND FUND BALANCES**

LIABILITIES

Accounts payable	\$ 67,712	\$ 22,498	\$ 0	\$ 0	\$ 90,210
Accrued liabilities	79	0	0	0	79
Deferred revenue	0	69,584	0	0	69,584
TOTAL LIABILITIES	67,791	92,082	0	0	159,873

FUND BALANCES

Reserved for:					
SFCC	0	0	191,634	45,267	236,901
Capital projects	0	0	0	42,295	42,295
Encumbrances	29,740	13,677	0	0	43,417
Unreserved	1,836,695	23,939	48,620	0	1,909,254
TOTAL FUND BALANCES	1,866,435	37,616	240,254	87,562	2,231,867

**TOTAL LIABILITIES AND
FUND BALANCES**

\$ 1,934,226	\$ 129,698	\$ 240,254	\$ 87,562	\$ 2,391,740
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**RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2004**

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS \$ 2,231,867

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported as assets in governmental funds. The cost of the
assets is \$11,987,518, and the accumulated depreciation is \$5,927,850..... 6,059,668

Long-term liabilities, including bonds payable, are not due and payable in the
current period and, therefore, are not reported as liabilities in the funds. Long-term
liabilities at year-end consist of:

Bonds payable	(3,260,000)
Accrued interest on the bonds	(46,994)
Other debt	(185,134)
Compensated absences	(424,662)

TOTAL NET ASSETS ³/₄ GOVERNMENTAL ACTIVITIES **\$ 4,374,745**

See accompanying notes to the financial statements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	GENERAL FUND	SPECIAL REVENUE FUND	SEEK FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
From local sources:					
Taxes:					
Property	\$ 1,044,726	\$ 0	\$ 0	\$ 119,283	\$ 1,164,009
Motor vehicle.....	124,000	0	0	0	124,000
Utilities	411,397	0	0	0	411,397
Other	69,171	0	0	0	69,171
Earnings on investments	55,972	206	1,851	438	58,467
Other local revenue.....	50,340	66,983	0	3,868	121,191
Intergovernmental – state	5,532,043	590,129	109,640	179,486	6,411,298
Intergovernmental – indirect federal	13,033	882,179	0	0	895,212
Intergovernmental – direct federal	3,156	0	0	0	3,156
TOTAL REVENUES	7,303,838	1,539,497	111,491	303,075	9,257,901
EXPENDITURES					
Current:					
Instruction	3,768,339	1,110,072	0	0	4,878,411
Support services:					
Student.....	357,809	69,687	0	0	427,496

Instructional staff	250,981	129,392	0	0	380,373
District administration.....	375,624	21,333	0	0	396,957
School administration.....	549,297	776	0	0	550,073
Business	225,907	0	0	0	225,907
Plant operations and maintenance.....	821,628	7,734	0	0	829,362
Student transportation.....	323,238	59,182	0	0	382,420
Other.....	27,452	166,765	0	0	194,217
Debt service:					
Principal	47,340	0	0	205,000	252,340
Interest.....	10,449	0	0	158,658	169,107
TOTAL EXPENDITURES	6,758,064	1,564,941	0	363,658	8,686,663
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	545,774	(25,444)	111,491	(60,583)	571,238
OTHER FINANCING SOURCES (USES)					
Operating transfers	(16,402)	16,402	(61,020)	61,020	0
TOTAL OTHER FINANCING SOURCES (USES)	(16,402)	16,402	(61,020)	61,020	0
NET CHANGE IN FUND BALANCES	529,372	(9,042)	50,471	437	571,238
FUND BALANCES $\frac{3}{4}$ BEGINNING OF YEAR.....	1,337,063	46,658	189,783	87,125	1,660,629
FUND BALANCES $\frac{3}{4}$ END OF YEAR	\$ 1,866,435	\$ 37,616	\$ 240,254	\$ 87,562	\$ 2,231,867

See accompanying notes to the financial statements.

**RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004**

TOTAL NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS \$ 571,238

Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays are reported in governmental funds as expenditures. However,
in the statement of activities, the cost of those assets is allocated over their
estimated useful lives as depreciation expense. This is the amount by which
depreciation expense (\$362,751) exceeds capital outlays (\$113,228)
in the period..... (249,523)

Repayment of bond principal and other debt is an expenditure in the governmental
funds, but the repayment reduces long-term liabilities in the statement of net assets..... 252,340

In the statement of activities, certain operating expenses—compensated
absences (sick pay and vacations) are measured by the amounts earned during
the year. In the governmental funds, however, expenditures for these items are
measured by the amount of financial resources used (essentially, the amounts
actually paid). This year, vacation and sick leave used (\$21,295) exceeded the
amounts earned (\$20,521) by \$774..... 774

Expenditures reported in the fund financial statements are recognized when the
current financial resource is used. However, expenses in the statement of activities
are recognized when they are incurred..... 1,777

CHANGE IN NET ASSETS ^{3/4} GOVERNMENTAL ACTIVITIES **\$ 576,606**

See accompanying notes to the financial statements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

	ENTERPRISE FUND FOOD SERVICE	ENTERPRISE FUND COMMUNITY EDUCATION	TOTAL
ASSETS			
CURRENT ASSETS			
Cash.....	\$ 117,525	\$ 1,791	\$ 119,316
Inventory.....	4,289	0	4,289
TOTAL CURRENT ASSETS	121,814	1,791	123,605
NON-CURRENT ASSETS			
Fixed assets – net.....	45,788	0	45,788
TOTAL ASSETS	\$ 167,602	\$ 1,791	\$ 169,393
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable.....	\$ 0	\$ 71	\$ 71
TOTAL CURRENT LIABILITIES	0	71	71
NET ASSETS			
Invested in capital assets	45,788	0	45,788
Unrestricted	121,814	1,720	123,534
TOTAL NET ASSETS	167,602	1,720	169,322
TOTAL LIABILITIES AND NET ASSETS	\$ 167,602	\$ 1,791	\$ 169,393

See accompanying notes to the financial statements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004

	ENTERPRISE FUND FOOD SERVICE	ENTERPRISE FUND COMMUNITY EDUCATION	TOTAL
OPERATING REVENUES			
Lunchroom sales	\$ 164,228	\$ 0	\$ 164,228
Community education fees	0	6,400	6,400
TOTAL OPERATING REVENUES	<u>164,228</u>	<u>6,400</u>	<u>170,628</u>
OPERATING EXPENSES			
Salaries and wages	216,152	0	216,152
Contract services	31,462	0	31,462
Materials and supplies	222,101	0	222,101
Other operating expenses	377	5,688	6,065
Depreciation expense	11,602	0	11,602
TOTAL OPERATING EXPENSES	<u>481,694</u>	<u>5,688</u>	<u>487,382</u>
OPERATING INCOME (LOSS)	<u>(317,466)</u>	<u>712</u>	<u>(316,754)</u>
NON-OPERATING REVENUES			
State operating grants	7,250	0	7,250
Federal operating grants	306,046	0	306,046
Donated commodities	33,206	0	33,206
Other revenue	1,000	0	1,000
Interest revenue	2,089	0	2,089
TOTAL NON-OPERATING REVENUES	<u>349,591</u>	<u>0</u>	<u>349,591</u>
CHANGE IN NET ASSETS	32,125	712	32,837
TOTAL NET ASSETS $\frac{3}{4}$ BEGINNING OF YEAR.....	<u>135,477</u>	<u>1,008</u>	<u>136,485</u>
TOTAL NET ASSETS $\frac{3}{4}$ END OF YEAR	<u><u>\$ 167,602</u></u>	<u><u>\$ 1,720</u></u>	<u><u>\$ 169,322</u></u>

See accompanying notes to the financial statements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004

	ENTERPRISE FUND FOOD SERVICE	ENTERPRISE FUND COMMUNITY EDUCATION	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from user charges	\$ 164,228	\$ 6,400	\$ 170,628
Cash payments to employees for services	(216,152)	0	(216,152)
Cash payments for contract services	(31,462)	0	(31,462)
Cash payments to suppliers for goods and services	(194,124)	0	(194,124)
Cash payments for other operating expenses	(377)	(5,732)	(6,109)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(277,887)	668	(277,219)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Nonoperating grants received	313,296	0	313,296
Other	1,000	0	1,000
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	314,296	0	314,296
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(2,250)	0	(2,250)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(2,250)	0	(2,250)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	2,088	0	2,088
NET CASH PROVIDED BY INVESTING ACTIVITIES	2,088	0	2,088
NET INCREASE IN CASH.....	36,247	668	36,915
CASH ³/₄ BEGINNING OF YEAR	81,278	1,123	82,401
CASH ³/₄ END OF YEAR	\$ 117,525	\$ 1,791	\$ 119,316

	ENTERPRISE FUND FOOD SERVICE	ENTERPRISE FUND COMMUNITY EDUCATION	TOTAL
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating income (loss).....	\$ (317,466)	\$ 712	\$ (316,754)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation.....	11,602	0	11,602
Commodities used.....	33,206	0	33,206
Changes in assets and liabilities:			
Inventory.....	(644)	0	(644)
Accounts payable.....	(4,585)	(44)	(4,629)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (277,887)	\$ 668	\$ (277,219)

See accompanying notes to the financial statements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2004

	<u>AGENCY FUNDS</u>	<u>PRIVATE PURPOSE TRUST FUND</u>
ASSETS		
ASSETS		
Cash.....	\$ 115,308	\$ 24,792
Accounts receivable	8,995	0
TOTAL ASSETS	\$ 124,303	\$ 24,792
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 5,207	\$ 0
Due to student groups	119,096	0
TOTAL LIABILITIES	124,303	0
NET ASSETS		
Held in trust for scholarships	0	24,792
TOTAL NET ASSETS	0	24,792
TOTAL LIABILITIES AND NET ASSETS	\$ 124,303	\$ 24,792

See accompanying notes to the financial statements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2004

	PRIVATE PURPOSE TRUST FUNDS
ADDITIONS	
Earnings on investments	\$ 292
Contributions	25,000
TOTAL ADDITIONS	<u>25,292</u>
DEDUCTIONS	
Scholarships	500
TOTAL DEDUCTIONS	<u>500</u>
CHANGE IN NET ASSETS	24,792
NET ASSETS ³/₄ BEGINNING OF YEAR	<u>0</u>
NET ASSETS ³/₄ END OF YEAR	<u><u>\$ 24,792</u></u>

See accompanying notes to the financial statements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

! Reporting Entity

The Russellville Independent Board of Education (the "Board"), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Russellville Independent School District (the "District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Russellville Independent School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization is included in the accompanying financial statements:

Russellville Independent School District Finance Corporation — The Russellville Independent Board of Education resolved to authorize the establishment of the Russellville Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Russellville Independent Board of Education also comprise the Corporation's Board of Directors.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

! Basis of Presentation

Government-wide Financial Statements — The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Fund Financial Statements — Fund financial statements report detailed information about the District's funds, including fiduciary funds. Separate statements for each fund category — governmental, proprietary and fiduciary — are presented. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

► **Governmental Fund Types**

The *General Fund* is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. The General Fund is a major fund.

The *Special Revenue Funds* account for proceeds of specific revenue sources (other than debt service, enterprise funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the schedule of expenditures of federal awards included in this report. In addition, the Kentucky Education Technology System (KETS) allocation and local district matching funds

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

are being recorded in the special revenue fund as required by the Kentucky Department of Education. These funds are restricted for the purchase of technology consistent with the District's approved technology plan. The Special Revenue Fund is a major fund.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

The *Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund* receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan. SEEK is a major fund.

The *Facility Support Program of Kentucky Fund (FSPK)* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds are restricted for use in financing projects identified in the District's facility plan.

The *Construction Fund* accounts for proceeds from sales of bonds and other revenues to be used for authorized construction

The *Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost as required by Kentucky law.

► **Proprietary Fund Types**

Enterprise Fund

The *School Food Service Fund* is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

The *Community Education Fund* is used to account for local community education activities. Community Education is a major fund.

To the proprietary activities, the District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

► **Fiduciary Fund Types** (includes agency funds and private purpose trust funds)

Fiduciary funds account for assets held by the District in a trustees capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement.

Agency Funds

The *Activity Fund* accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

Private Purpose Trust Funds

The *Private Purpose Trust Fund* is used to report trust arrangements under which principal and income benefit individuals.

! Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

The records of the Board are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the General Fund, Special Revenue Fund and Capital Projects Funds.

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net assets.

The financial statements of the governmental fund types are on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The Proprietary Funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

! Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances and disclosure of contingent assets and liabilities at the date of the

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

! Investments

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

! Inventory

Supplies and materials are charged to expenditures when purchased (purchases method) with the exception of the Proprietary Funds, which records inventory at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

! Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25–50 years
Land improvements.....	20 years
Technology equipment	5 years
Vehicles	5–10 years
Audio-visual equipment	15 years
Food service equipment	10–12 years
Furniture and fixtures	7 years
Rolling stock.....	15 years
Other.....	10 years

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

! Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

! Compensated Absences

The District uses the vesting method to compute compensated absences for sick leave. Sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits at termination. The District records a liability for accumulated unused sick leave time when earned for all employees with more than five years of service.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "*matured compensated absences payable*" in the funds from which the employees will be paid.

! Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the Government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

! Fund Equity

Reservations of fund balance represent amounts that are not appropriable or legally segregated for a specific purpose. Reservations of net assets are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

! Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

! Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September Board meeting. Assuming property tax bills are timely mailed, the collection date is the period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

! Revenues — Exchange and Nonexchange Transactions

Revenues resulting from exchange transactions are where each party receives equal value. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivables are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September. On the modified accrual basis, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Revenues from nonexchange transactions must also be available before they can be recognized.

! Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

! Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

! Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

! Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

! Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2004. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

**NOTE 2: CHANGES IN ACCOUNTING PRINCIPLES AND
RESTATEMENT OF FUND BALANCE**

In June 1999, the Government Accounting Standards Board (GASB) issued Statement No. 34 *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* (GASB 34). Statement No. 34 makes significant changes in financial reporting. Subsequent to the issuance of GASB 34, GASB issued the following standards to be implemented at the same time GASB 34 is adopted;

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

**NOTE 2: CHANGES IN ACCOUNTING PRINCIPLES AND
RESTATEMENT OF FUND BALANCE (Continued)**

Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures* and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The District has implemented these standards effective July 1, 2003.

Statement No. 34, among other changes, adds two new "Government-Wide" (District-Wide) financial statements as basic financial statements required for all governmental units. The Statement of Net assets and the Statement of Activities are the two new required statements. Both statements are prepared on the full accrual basis. The government-wide financial statements split the District's programs between business-type and governmental activities. Previously, in accordance with accounting standards for governmental units, the District used the modified accrual basis of accounting for certain funds. The modified accrual basis of accounting continues to be the appropriate basis of accounting for governmental activity fund financial statements.

In addition, all funds are reported as governmental, proprietary or fiduciary funds. The definitions for these types of activities are discussed in other portions of Note 1.

Finally, all nonfiduciary funds are further classified as major or nonmajor funds. In reporting financial condition and results of operations for governmental units, the new standard concentrates on major funds versus nonmajor funds.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

**NOTE 2: CHANGES IN ACCOUNTING PRINCIPLES AND
RESTATEMENT OF FUND BALANCE (Continued)**

The restatement of the above changes and the transition from governmental fund balance to net assets of the governmental activities is presented below:

	General	Special Revenue	SEEK	Non-Major	Total
Fund equity, June 30, 2003, as previously reported	\$ 1,140,459	\$ 46,658	\$ 189,783	\$ 87,125	\$ 1,464,025
Prior period adjustment ¹	196,604	0	0	0	196,604
Fund equity restated.....	\$ 1,337,063	\$ 46,658	\$ 189,783	\$ 87,125	1,660,629

GASB 34 adjustments:

Capital assets, net of depreciation.....	6,309,191
Long-term liabilities	(3,465,000)
Other	(232,474)
Accrued compensated absences	(425,436)
Accrued interest payable.....	(48,771)

\$ 3,798,139

¹ A prior period entry was required relating to compensated absences for the fund statements. The amount recorded was not in accordance with current standards once GASB Statement No. 34 was implemented. The impact was to increase the General Fund's fund balance by \$196,604 and reduce liabilities by \$196,604.

The District had a fixed asset inventory taken to comply with GASB 34. This inventory revealed a difference in the proprietary fixed assets that was previously recorded. Changes as a result of the GASB 34 implementation are as follows:

	School Food Service
Fund equity, June 30, 2003	\$ 129,251
Change in fixed assets	6,226
Adjusted Fund Equity, June 30, 2003	<u>\$ 135,477</u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

NOTE 3: CASH AND INVESTMENTS

! Deposits

At June 30, 2004, the carrying amounts of the District's deposits were \$2,401,346 and the bank balances were \$2,890,848, which was covered by federal depository insurance or by collateral held by the banks in the District's name.

The carrying amounts are reflected in the financial statements as follows:

Governmental funds	\$ 2,141,930
Proprietary funds	119,316
Fiduciary funds	140,100
	<hr/>
	\$ 2,401,346
	<hr/>

! Investments

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and shares in mutual funds.

The District's investments are categorized as either (1) insured or registered or for which the securities are held by the government or its agent in the District's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the District's name or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the District's name.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

NOTE 3: CASH AND INVESTMENTS (Continued)

	Categories			Reported Value
	1	2	3	
U.S. Government Securities and Agencies	\$ 117,011	\$ 0	\$ 0	\$ 117,011
	<u>\$ 117,011</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 117,011</u>

The District invests in various U.S. Government agencies (external investment pools) such as: Federal National Mortgage Corporation and Federal Home Loan Mortgage Corporation. All such investments are forms of mortgage-backed securities and are sensitive to interest rate changes in the market. The fair value of the U.S. Government agencies (external investment pools) at year-end is \$90,107.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

	Capital Cost			
	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
Capital assets that are not depreciated:				
Land	\$ 209,570	\$ 0	\$ 0	\$ 209,570
Total Nondepreciable Historical Cost	<u>209,570</u>	<u>0</u>	<u>0</u>	<u>209,570</u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

NOTE 4: CAPITAL ASSETS (Continued)

	Capital Cost			Ending Balance
	Beginning Balance	Additions	Disposals	
Capital assets that are depreciated:				
Land improvements	848,463	0	0	848,463
Buildings and improvements.....	8,710,165	25,015	0	8,735,180
Technology equipment.....	974,865	58,148	(49,445)	983,568
Vehicles	796,879	4,025	0	800,904
General.....	383,793	26,040	0	409,833
Total Depreciable Historical Cost	11,714,165	113,228	(49,445)	11,777,948
Less accumulated depreciation for:				
Land improvements	557,631	28,845	0	586,476
Buildings and improvements.....	3,396,317	197,039	0	3,593,356
Technology equipment.....	796,709	73,357	(49,445)	820,621
Vehicles	599,975	42,517	0	642,492
General.....	263,912	20,993	0	284,905
Total Accumulated Depreciation	5,614,544	362,751	(49,445)	5,927,850
Total Depreciable Historical Cost, Net	6,099,621	(249,523)	0	5,850,098
Governmental Activities, Capital Assets, Net	\$ 6,309,191	\$ (249,523)	\$ 0	\$ 6,059,668

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

NOTE 4: CAPITAL ASSETS (Continued)

	Capital Cost			
	Beginning Balance	Additions	Disposals	Ending Balance
Business-Type Activities:				
Capital assets that are depreciated:				
Technology equipment.....	\$ 17,510	\$ 2,250	\$ 0	\$ 19,760
General.....	203,517	0	0	203,517
Total Depreciable Historical Cost	221,027	2,250	0	223,277
Less accumulated depreciation for:				
Technology equipment.....	8,755	2,501	0	11,256
General.....	157,132	9,101	0	166,233
Total Accumulated Depreciation	165,887	11,602	0	177,489
Total Depreciable Historical Cost, Net	55,140	(9,352)	0	45,788
Business-Type Activities, Capital Assets, Net	\$ 55,140	\$ (9,352)	\$ 0	\$ 45,788

Depreciation expense was charged to governmental functions as follows:

Instruction.....	\$ 28,193
Support services:	
Student	3,143
Instructional staff	10,988
District administration	10,948
School administration	6,500
Plant operations and maintenance	265,408
Student transportation.....	37,559
Business.....	12
Total Depreciation Expense	\$ 362,751

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

NOTE 5: GENERAL LONG-TERM OBLIGATIONS

The original amount of each issue, the issue date and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1991	\$ 1,300,000	6.20%—6.75%
1996	1,915,000	4.00%—5.20%
1998	745,000	4.25%
2001	740,000	3.80%—5.00%
2001R	330,000	3.65%
2002	125,000	3.00%—4.20%

The District, through the General Fund, including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Funds, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Russellville Independent School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2004 for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2004–2005	\$ 149,270	\$ 215,000	\$ 364,270
2005–2006	140,246	225,000	365,246
2006–2007	130,743	225,000	355,743
2007–2008	120,951	240,000	360,951
2008–2009	110,202	260,000	370,202
2009–2010	98,803	265,000	363,803
2010–2011	86,973	280,000	366,973

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

NOTE 5: GENERAL LONG-TERM OBLIGATIONS (Continued)

<u>Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2011–2012	76,974	290,000	366,974
2012–2013	62,960	295,000	357,960
2013–2014	48,125	305,000	353,125
2014–2015	32,533	325,000	357,533
2015–2016	15,694	335,000	350,694
	<u>\$ 1,073,474</u>	<u>\$ 3,260,000</u>	<u>\$ 4,333,474</u>

Maturities of other debt are as follows for the fiscal year ending:

<u>June 30,</u>	
2005	\$ 33,921
2006	33,386
2007	34,791
2008	23,939
2009	23,763
Therefore	<u>35,334</u>
	<u>\$ 185,134</u>

Changes in long-term obligations are as follows:

	<u>Balance July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2004</u>	<u>Amounts Due Within One Year</u>
District debt:					
Compensated absences	\$ 425,436	\$ 20,521	\$ (21,295)	\$ 424,662	\$ 199,900
Other	232,474	0	(47,340)	185,134	33,921
Bonds	3,465,000	0	(205,000)	3,260,000	215,000
	<u>\$ 4,122,910</u>	<u>\$ 20,521</u>	<u>\$ (273,635)</u>	<u>\$ 3,869,796</u>	<u>\$ 448,821</u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

NOTE 5: GENERAL LONG-TERM OBLIGATIONS (Continued)

Commitments under non-cancellable operating lease agreements for equipment as of June 30, 2004 are as follows:

<u>June 30,</u>		
2005	\$	15,289
2006		15,289
2007		15,289
2008		1,153
	\$	<u>47,020</u>

NOTE 6: PENSION PLANS

► *Plan Descriptions*

The Russellville Independent School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS) and the County Employees Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plans. KTRS and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issues a publicly available financial report that includes financial statements and required supplementary information. KTRS' report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or by calling (502) 573-3266. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

NOTE 6: PENSION PLANS (Continued)

► *Funding Policy*

KTRS and CERS plan members are required to contribute 9.855% and 5.00%, respectively, of their covered salary. The District is required to contribute to the CERS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS and CERS is 13.105% and 7.34% of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2004, 2003 and 2002 were \$96,237, \$82,956 and \$82,396, respectively, equal to the required contributions for each year.

The amount recognized for revenues and expenditures for on-behalf payments relating to fringe benefits for the year ended June 30, 2004 was \$990,491 for governmental funds.

NOTE 7: CONTINGENCIES

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

NOTE 8: INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes workers' compensation insurance.

NOTE 9: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for errors and omissions and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage.

The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

NOTE 10: EXCESS EXPENDITURES OVER APPROPRIATIONS

The District has no funds with a deficit fund balance. However, the following funds had excess current year expenditures over current year appropriated revenues:

<u>Fund</u>	<u>Amount</u>
Special Revenue.....	\$ 9,042

NOTE 11: FUND TRANSFERS

Fund transfers for the year ended June 30, 2004 consist of the following:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General Fund	Special Revenue	Matching	\$ 10,964
Operating	General Fund	Special Revenue	Expenditures	5,438
Operating	SEEK	Debt Service	Debt Service	61,020
Operating	FSPK	Debt Service	Debt Service	302,638

NOTE 12: CHANGES IN ACCOUNTING STANDARDS

In March 2003, the Government Accounting Standards Board issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes new disclosures for deposits and investments, focusing on risk. The District will implement this new standard in fiscal year ended June 30, 2005.

Required Supplemental Information

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2004

	BUDGETED AMOUNTS			VARIANCES FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL (GAAP BASIS)	FINAL TO ACTUAL
REVENUES				
Local and intermediate sources	\$ 1,395,000	\$ 1,398,200	\$ 1,755,606	\$ 357,406
State programs	4,525,835	4,521,568	5,532,043	1,010,475
Federal programs	0	0	16,189	16,189
TOTAL REVENUES	5,920,835	5,919,768	7,303,838	1,384,070
EXPENDITURES				
Current:				
Instruction	3,282,286	3,288,163	3,768,339	(480,176)
Support services:				
Student.....	269,465	281,585	357,809	(76,224)
Instructional staff	213,923	205,723	250,981	(45,258)
District administration	1,038,930	1,025,523	375,624	649,899
School administration	455,338	474,328	549,297	(74,969)
Business	127,110	130,414	225,907	(95,493)
Plant operations and maintenance	951,981	954,676	821,628	133,048
Student transportation	386,500	386,500	323,238	63,262
Central office.....	100,350	94,150	0	94,150
Other.....	0	0	27,452	(27,452)
Facilities acquisition and construction.....	145,352	341,956	0	341,956
Debt service	68,000	57,790	57,789	1
TOTAL EXPENDITURES	7,039,235	7,240,808	6,758,064	482,744

EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,118,400)</u>	<u>(1,321,040)</u>	<u>545,774</u>	<u>1,866,814</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers	<u>(22,059)</u>	<u>(16,023)</u>	<u>(16,402)</u>	<u>(379)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(22,059)</u>	<u>(16,023)</u>	<u>(16,402)</u>	<u>(379)</u>
NET CHANGE IN FUND BALANCES	<u>(1,140,459)</u>	<u>(1,337,063)</u>	<u>529,372</u>	<u>1,866,435</u>
FUND BALANCES ³/₄ BEGINNING OF YEAR	<u>1,140,459</u>	<u>1,337,063</u>	<u>1,337,063</u>	<u>0</u>
FUND BALANCES ³/₄ END OF YEAR	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,866,435</u>	<u>\$ 1,866,435</u>

EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

Inflows/revenues:	
Actual amounts (budgetary basis).....	\$ 6,313,347
Differences — budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budget amounts	<u>990,491</u>
Total Revenues as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances ³/₄ Governmental Funds	<u>\$ 7,303,838</u>
Outflows/expenses:	
Actual amounts (budgetary basis).....	\$ 5,767,573
Differences — budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budget amounts	<u>990,491</u>
Total Expenditures as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances ³/₄ Governmental Funds	<u>\$ 6,758,064</u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE SPECIAL REVENUE FUND
For the Year Ended June 30, 2004

	BUDGETED AMOUNTS			VARIANCES FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL (GAAP BASIS)	FINAL TO ACTUAL
REVENUES				
Local and intermediate sources	\$ 46,414	\$ 59,581	\$ 67,189	\$ 7,608
State programs	512,720	508,642	590,129	81,487
Federal programs	1,093,117	827,392	882,179	54,787
TOTAL REVENUES	1,652,251	1,395,615	1,539,497	143,882
EXPENDITURES				
Current:				
Instruction.....	1,171,979	966,104	1,110,072	(143,968)
Support services:				
Student.....	76,235	71,272	69,687	1,585
Instructional staff	187,868	119,842	129,392	(9,550)
District administration.....	51,332	39,291	21,333	17,958
School administration.....	0	270	776	(506)
Plant operations and maintenance.....	21,514	7,617	7,734	(117)
Student transportation.....	38,879	44,755	59,182	(14,427)
Other	173,161	162,926	166,765	(3,839)
TOTAL EXPENDITURES	1,720,968	1,412,077	1,564,941	(152,864)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(68,717)	(16,462)	(25,444)	(8,982)

OTHER FINANCING SOURCES (USES)

Operating transfers	22,059	16,462	16,402	(60)
TOTAL OTHER FINANCING SOURCES (USES)	22,059	16,462	16,402	(60)
NET CHANGE IN FUND BALANCES	(46,658)	0	(9,042)	(9,042)
FUND BALANCES ³/₄ BEGINNING OF YEAR	46,658	0	46,658	46,658
FUND BALANCES ³/₄ END OF YEAR	\$ 0	\$ 0	\$ 37,616	\$ 37,616

Supplemental Information

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2004

	<u>DEBT SERVICE</u>	<u>FSPK FUND</u>	<u>CONSTRUCTION FUND</u>	<u>TOTAL OTHER GOVERNMENTAL FUNDS</u>
ASSETS				
Cash.....	\$ 0	\$ 45,267	\$ 42,295	\$ 87,562
TOTAL ASSETS	<u>\$ 0</u>	<u>\$ 45,267</u>	<u>\$ 42,295</u>	<u>\$ 87,562</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
FUND BALANCES				
Reserved for:				
SFCC	0	45,267	0	45,267
Capital projects	<u>0</u>	<u>0</u>	<u>42,295</u>	<u>42,295</u>
TOTAL FUND BALANCES	<u>0</u>	<u>45,267</u>	<u>42,295</u>	<u>87,562</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 0</u>	<u>\$ 45,267</u>	<u>\$ 42,295</u>	<u>\$ 87,562</u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	DEBT SERVICE	FSPK FUND	CONSTRUCTION FUND	TOTAL OTHER GOVERNMENTAL FUNDS
REVENUES				
From local sources:				
Taxes:				
Property.....	\$ 0	\$ 119,283	\$ 0	\$ 119,283
Earnings on investments.....	0	438	0	438
Other local revenue.....	0	3,868	0	3,868
Intergovernmental — state	0	179,486	0	179,486
TOTAL REVENUES	<u>0</u>	<u>303,075</u>	<u>0</u>	<u>303,075</u>
EXPENDITURES				
Current:				
Debt service:				
Principal.....	205,000	0	0	205,000
Interest.....	158,658	0	0	158,658
TOTAL EXPENDITURES	<u>363,658</u>	<u>0</u>	<u>0</u>	<u>363,658</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(363,658)</u>	<u>303,075</u>	<u>0</u>	<u>(60,583)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers	363,658	(302,638)	0	61,020
TOTAL OTHER FINANCING SOURCES (USES)	<u>363,658</u>	<u>(302,638)</u>	<u>0</u>	<u>61,020</u>
NET CHANGE IN FUND BALANCES	<u>0</u>	<u>437</u>	<u>0</u>	<u>437</u>
FUND BALANCES — BEGINNING OF YEAR	<u>0</u>	<u>44,830</u>	<u>42,295</u>	<u>87,125</u>
FUND BALANCES — END OF YEAR	<u><u>\$ 0</u></u>	<u><u>\$ 45,267</u></u>	<u><u>\$ 42,295</u></u>	<u><u>\$ 87,562</u></u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
UNITED WAY 2004
For the Year Ended June 30, 2004

	FAMILY RESOURCE CENTER
REVENUES	
United Way revenue.....	\$ 8,090
TOTAL REVENUES	<u>8,090</u>
EXPENDITURES	
Community service.....	6,391
TOTAL EXPENDITURES	<u>6,391</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,699
FUND BALANCES ³/₄ BEGINNING OF YEAR	<u>0</u>
FUND BALANCES ³/₄ END OF YEAR	<u><u>\$ 1,699</u></u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
UNITED WAY 2003
For the Year Ended June 30, 2004

	FAMILY RESOURCE CENTER
REVENUES	
United Way revenue.....	\$ 0
TOTAL REVENUES	<u>0</u>
EXPENDITURES	
Community service.....	4,574
TOTAL EXPENDITURES	<u>4,574</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,574)
FUND BALANCES ³/₄ BEGINNING OF YEAR.....	<u>4,574</u>
FUND BALANCES ³/₄ END OF YEAR	<u><u>\$ 0</u></u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
UNITED WAY 2002
For the Year Ended June 30, 2004

	FAMILY RESOURCE CENTER
REVENUES	
United Way revenue.....	\$ 0
TOTAL REVENUES	<u>0</u>
EXPENDITURES	
Community service.....	253
TOTAL EXPENDITURES	<u>253</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(253)
FUND BALANCES ³/₄ BEGINNING OF YEAR.....	<u>3,364</u>
FUND BALANCES ³/₄ END OF YEAR	<u><u>\$ 3,111</u></u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF ASSETS AND LIABILITIES
ALL SCHOOL ACTIVITY FUNDS
ALL AGENCY FUNDS
June 30, 2004

	CASH JUNE 30, 2004	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2004
Russellville High School	\$ 54,813	\$ 8,900	\$ 4,436	\$ 59,277
Russellville Middle School	18,398	95	771	17,722
Stevenson Elementary School	42,097	0	0	42,097
	\$ 115,308	\$ 8,995	\$ 5,207	\$ 119,096

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
RUSSELLVILLE HIGH SCHOOL
June 30, 2004

	CASH JUNE 30, 2004	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2004
Art Club.....	\$ 33	\$ 0	\$ 0	\$ 33
Athletics	21,509	0	0	21,509
Band.....	90	0	0	90
Band CD.....	1,634	0	0	1,634
Baseball.....	3,880	0	0	3,880
Beta Club.....	725	0	0	725
Bookstore.....	280	0	0	280
Boys Basketball.....	704	2,116	0	2,820
Cheerleaders	4,900	0	2,290	2,610
Chorus	7	0	0	7
Deca.....	157	0	0	157
Drama.....	407	0	0	407
Environmental Science.....	63	0	0	63
Fellow of Christian Athletes	94	0	0	94
Material Fees.....	745	0	0	745
FCC Leaders of America.....	1,145	0	0	1,145
Football.....	282	0	0	282
General.....	187	0	0	187
Girls Basketball.....	5,471	0	1,430	4,041
Golf.....	1,150	4,441	0	5,591
Lance	204	0	0	204
Library.....	51	0	0	51
Mary Hope Henry.....	199	0	0	199
National Honor Society	158	0	0	158
Panther Press.....	728	0	0	728
Pep Club.....	641	0	0	641
Picture Commission.....	300	0	0	300
Positive Panther Peers.....	295	0	0	295
Science Club.....	1,622	0	0	1,622
Senior Class.....	3,233	412	0	3,645
Shakespearean Fest.....	293	0	0	293
Soccer.....	526	1,301	0	1,827

	CASH JUNE 30, 2004	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2004
Softball.....	45	630	0	675
Spanish Club.....	47	0	0	47
Speech Club	84	0	0	84
Student Council.....	185	0	0	185
Swim Team	413	0	0	413
Teacher Lounge	391	0	0	391
Technology Students Association.....	726	0	716	10
Vending Machines	479	0	0	479
Volleyball	397	0	0	397
Yearbook	333	0	0	333
	\$ 54,813	\$ 8,900	\$ 4,436	\$ 59,277

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE			
Passed-Through State Department of Education:			
School Breakfast Program.....	10.553	57604 05	\$ 84,158
National School Lunch Program.....	10.555	57504 02	221,888
Passed-Through State Department of Agriculture:			
Food Distribution Program.....	10.555`		33,206
TOTAL U.S. DEPARTMENT OF AGRICULTURE			339,252
U.S. DEPARTMENT OF EDUCATION			
Passed-Through State Department of Education:			
Title I Part A — 2003.....	84.010	35103 01	95,843
Title I Part A — 2004.....	84.010	35104 01	282,178
Title I Part C Migrant — 2002.....	84.011	35202 02	610
Title I Part C Migrant — 2002 Special Travel.....	84.011	35202 02	450
Title I Part C Migrant — 2003.....	84.011	35203 02	6,750
Title I Part C Migrant — 2004.....	84.011	35204 02	3,791
Title VI Innovative Education — 2002.....	84.298A	53302 02	6,509
Title V Innovative Education — 2003.....	84.298A	53303 02	8,140
Title V Innovative Education — 2004.....	84.298A	53304 02	1,914
IDEA Part B Special Education — 2003.....	84.027	58103 02	71,022
IDEA Part B Special Education — 2004.....	84.027	58104 02	207,097
IDEA Part B Preschool — 2003.....	84.173	58703 02	18,399
IDEA Part B Preschool — 2004.....	84.173	58704 02	36,740
Title I Part C Carl Perkins Voc Education — 2003.....	84.048	46203 32	938
Title I Part C Carl Perkins Voc Education — 2003.....	84.048	46203 32	169
Title I Part C Carl Perkins Voc Education — 2004.....	84.048	46204 32	8,059
Rural Education Achievement	84.358B		15,661
Title II Part A Teacher Quality — 2003.....	84.367	71003 02	18,975
Title II Part A Teacher Quality — 2004.....	84.367	71004 02	73,972
Title IV Safe & Drug Free Schools — 2002.....	84.186A	59002 02	681
Title IV Safe & Drug Free Schools — 2003.....	84.186A	59003 02	7,684
Title IV Safe & Drug Free Schools — 2004.....	84.186A	59004 02	7,438
Enhancing Education Through Technology — 2003.....	84.318	73603 02	2,124
Enhancing Education Through Technology — 2004.....	84.318	73604 02	2,822
Service Learning Grant — 2002.....	94.004	74302 02	262
Service Learning Grant — 2004.....	94.004	74304 02	3,952
Passed-Through State Workforce Cabinet:			
Community Based Work Transition	84.002		6,945
Impact Aid.....	14.854		3,156
TOTAL U.S. DEPARTMENT OF EDUCATION			892,281
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,231,533

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of ***Russellville Independent School District*** and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2004

None.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Kentucky State Committee for School District Audits
Members of the Board of Education
Russellville Independent School District
Russellville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of ***Russellville Independent School District*** as of and for the year ended June 30, 2004, which collectively comprise ***Russellville Independent School District's*** basic financial statements and have issued our report thereon dated September 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements* and Appendix III of the *Independent Auditors' Contract—Electronic Submission*.

! Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of

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noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Appendix II of the *Independent Auditor's Contract—State Audit Requirements*.

! Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated September 3, 2004.

This report is intended solely for the information and use of the members of the ***Russellville Independent Board of Education***, Kentucky State Committee for School Districts, management of the ***Russellville Independent School District***, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Russellville, Kentucky
September 3, 2004



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Kentucky State Committee for School District Audits
Members of the Board of Education
Russellville Independent School District
Russellville, Kentucky

! Compliance

We have audited the compliance of ***Russellville Independent School District*** (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements* and

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Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 04-1.

! Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Kentucky State Committee for School District Audits
Members of the Board of Education
Russellville Independent School District

This report is intended solely for the information and use of the members of the **Russellville Independent Board of Education**, Kentucky State Committee for School Districts, management of the **Russellville Independent School District**, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Russellville, Kentucky
September 3, 2004

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2004

SECTION I — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? G Yes ☒ No

Reportable condition(s) identified that are not considered to be material weakness(es)? G Yes ☒ None reported

Noncompliance material to financial statements noted? G Yes ☒ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? G Yes ☒ No

Reportable condition(s) identified that are not considered to be material weakness(es)? G Yes ☒ None reported

Type of auditors' report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☒ Yes G No

CFDA Numbers	Name of Federal Program or Cluster
10.553 / 10.555 / 10.559	Child Nutrition Cluster
84.010	Title I

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? G Yes ☒ No

SECTION II — FINANCIAL STATEMENT FINDINGS

None

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

04-1 Grant Compliance

During our audit of grant programs, we noted that the District did not maintain documentation of employee time and effort for those employees paid from federal programs. Per OMB Circular A-87, Attachment B, an employee whose compensation is funded solely from a single federal program must furnish a semi-annual certification that he/she has been engaged solely in activities supported by the federal program. An employee paid in part from a single federal program, and in part with funds from other revenue sources, must maintain time and effort records that document the portion of time and effort dedicated to the single federal program, and each program or other cost objective supported by other revenue sources. The employee or the supervisory official having first-hand knowledge of the work performed by the employee must sign these certifications. There are no questioned costs resulting from this noncompliance.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2004

Management Response: It was our understanding OMB Circular A-87 applied only to indirect administrative cost. We have complied with the documentation for administrative personnel paid from federal programs. In the future, the District will implement a procedure to maintain time and effort records that document the direct portion of time and effort dedicated to the single or multiple cost objective. The employee or the supervisory official having first-hand knowledge of the work performed by the employee will sign these certifications.



Kentucky State Committee for School District Audits
Members of the Board of Education
Russellville Independent School District
Russellville, Kentucky

In planning and performing our audit of the financial statements of ***Russellville Independent School District*** (the "District") for the year ended June 30, 2004, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of matters that are an opportunity for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and recommendations regarding these matters. Any uncorrected comments from the prior year have been listed in this letter. A separate report dated September 3, 2004 contains our report on the District's internal control. This letter does not affect our report dated September 3, 2004 on the financial statements of the District.

We will review the status of these comments during our next audit engagement. We have already discussed the comments and recommendations with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters or to assist you in implementing the recommendations.

Holland CPAs, PSC

Russellville, Kentucky
September 3, 2004

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RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS (CONTINUED)
For the Year Ended June 30, 2004

2003–2004

! Activity Funds — Individual Schools

✓ *All Schools*

- ▶ While reviewing the activity funds of the high school, it was brought to our attention by District administrators that a few bank accounts for the benefit of student activities had been opened by unauthorized individuals and were not recorded on the annual financial reports of the high school. These bank accounts have been closed and deposited into the high school's accounts. Only approved organizations should maintain accounts for student benefits separate from the school's activity funds. All other student activities should be maintained through the school's activities accounts. A separate activity ledger should be set up for each activity. All student monies should be recorded on the annual financial reports.

✓ *Russellville Middle School*

- ▶ While testing disbursements, we noted one activity fund has a negative fund balance. After accounts receivables and accounts payables are booked, no activity fund should have a negative fund balance. We recommend the balances in each account be watched closely to prevent further occurrences.
- ▶ In our testing of deposits, we noted deposits are not being made on a timely basis. Large amounts of undeposited cash creates additional risk. We suggest cash receipts of over \$100 should be made on a daily basis.

✓ *Russellville High School*

- ▶ While testing disbursements, we noted documentation of the receipt of merchandise was not performed consistently. The person receiving merchandise should document the quantities received as compared to the purchase order. We recommend the individual receiving the merchandise should document that the merchandise has been received on the purchase order or the invoice.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS (CONTINUED)
For the Year Ended June 30, 2004

● **District**

✓ *Fraud Policy*

- ▶ The District's policies and procedures do not contain a fraud policy. This policy would assist employees in understanding the business culture the District expects its Board, management and employees to inhere to. We suggest the District's policies and procedures should contain a fraud policy.



Kentucky State Committee for School District Audits
Members of the Board of Education
Russellville Independent School District
Russellville, Kentucky

We have audited the financial statements of ***Russellville Independent School District*** (the "District") for the year ended June 30, 2004, and have issued our report thereon dated September 3, 2004. Professional standards require that we provide you with the following information related to our audit.

**! Our Responsibility Under Auditing Standards Generally Accepted
in the United States of America, Government Auditing Standards,
OMB Circular A-133 and Procedures for Auditing Local School Districts'
Fiscal Records**

As stated in our engagement letter dated July 1, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Russellville, KY 42276
(270) 726-7151 — Fax: (270) 726-3155
1-888-240-7151

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

! Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in *Note 1* to the financial statements. As described in *Note 2* of the financial statements, effective July 1, 2003, the District adopted GASB Statement No. 34 and related standards. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you or transactions for which there is a lack of authoritative guidance or consensus.

! Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

● **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures.

These adjustments may include those proposed by us but not recorded by the District that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. Our proposed audit adjustments, that were in our judgment either individually or in the aggregate, which had a significant effect on the District's financial reporting process were recorded by the District. We would be glad to discuss the nature of these adjustments with you. In addition, the attached schedules summarize uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

! **Disagreements With Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

! **Consultations With Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

! Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

! Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the members of the Board of Education, Kentucky State Committee for School District Audits and management of ***Russellville Independent School District*** and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

**RUSSELLVILLE INDEPENDENT SCHOOL
AUDIT DIFFERENCE EVALUATION**

June 30, 2004

**FUND FINANCIAL STATEMENTS
GENERAL FUND
AND
GOVERNMENTAL ACTIVITIES
DISTRICT-WIDE FINANCIAL STATEMENTS**

		Effect on Financial Statements ³ / ₄ Over (Under) Statement					
Description	Amount of Difference	Total Assets	Total Liability	Fund Equity	Revenues	Expenses	Net Change
TO BOOK ADDITIONAL A/R – PRIOR YEAR	8,759				8,759		8,759
TO BOOK ADDITIONAL A/R – CURRENT YEAR	5,836	(5,836)		(5,836)	(5,836)		(5,836)
Net Effect		(5,836)		(5,836)	2,923		2,923

RUSSELLVILLE INDEPENDENT SCHOOLS

355 South Summer Street
Russellville, Kentucky 42276

Telephone: (270) 726-8405

FAX: (270) 726-4036

Dr. Kenneth E. Stephens
Superintendent

James C. Milam
Board Chairman

December 13, 2004

Laney White
Holland CPAs PSC
PO Box 104
Bowling Green, KY 42102-0104

Dear Laney:

We have reviewed the "comments and recommendations" on the audit for the year ending June 30, 2004. We appreciate any comments or suggestions you can make in which our district can improve. Attached are the responses to your comments and recommendations.

- **All Schools:**
 - After the bank accounts were brought to the attention of the district administration, an appropriate action was taken with the school staff involved. At the beginning of the school year, the superintendent met with principals and extra-curricular staff. The superintendent informed the staff if student funds were not deposited into the appropriate school accounts it would be grounds for termination.
- **Russellville Middle School:**
 - The superintendent met with the school principal, a transfer will be made from the principal's fund to pay for any funds over expenditure.
 - After a discussion with school administration, funds will be deposited on a daily basis.
- **Russellville High School:**
 - The purchase order or invoice will be properly documented.
- **District**
 - The district's policies and procedures manual will be updated with a fraud policy.

- **Grant Compliance**

- It was our understanding OMB Circular A-87 applied only to indirect administrative cost. We have complied with the documentation for administrative personnel paid from federal programs. In the future, the District will implement a procedure to maintain time and effort records that document the direct portion of time and effort dedicated to the single or multiple cost objective. The employee or the supervisory official having first-hand knowledge of the work performed by the employee will sign these certifications.

Should you need any additional information or have any other comments, please feel free to contact us.

Very truly yours,

Kenneth Stephens
Superintendent
Russellville Independent School District

Mark Coursey, CPA
Finance Officer
Russellville Independent School District